2009 Annual Report

BlueStar SecuTech,Inc.

Report and Financial Statements for the 12 Months Ended 31 March 2009

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BlueStar SecuTech, Inc.

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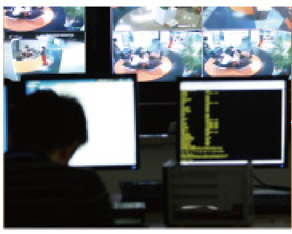
About BlueStar

BlueStar SecuTech, Inc.(LSE AIM: BSST) is a leading provider of “next generation” surveillance network solutions in China, using hardware and software across a network platform to capture, process, analyze and store digital video. BlueStar is one of the major suppliers of security technology, products and services to the banks in China under its brand name of TRENDLINE®.

BlueStar was incorporated in the British Virgin Islands on 7 June 2006 and was quoted on the AIM market of London Stock Exchange on 18 June 2007. With the headquarter in Beijing, BlueStar has expanded to the whole mainland China as well as some overseas markets, including 6 subsidiaries in Tier 1 cities and 24 technical service centers in Tier 2 and Tier 3 cities in China, and Southeast Asia.

The customers range from banking/financial sector to civil public security services, legal departments, large state-owned enterprises and military industry, such as Bank of China, Shanghai Stock Exchange, Tangshan Iron & Steel Co., Ltd., and China Construction Bank. The sustainable domestic demand of our products and services are driven by the regulatory replacement cycle of surveillance facilities in the banking sector and increasing security concerns and requirements in modern society.

In 2008, BlueStar was named in the Founder Magazine and H&J Consulting’s Innovation Star 50 list for 2008 and Deloitte’s Technology Fast 500 Asia-Pacific Award for the second successive year.



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Highlights for the year

- Revenue of RMB 157 million (15 months to 31 March 2008: RMB 175 million)
- Gross profit of RMB 77 million (15 months to 31 March 2008: RMB 96 million)
- Net profit of RMB 20 million (15 months to 31 March 2008: RMB 52 million)
- Revenue from high margin software of RMB 14 million (15 months to 31 March 2008:RMB 22 million)
- Strong cash position of RMB 85 million (31 March 2008: RMB 115 million)
- Dividend of 0.5p per share

Chairman's Statement

I am pleased to report BlueStar's results for the year ended 31 March 2009 which are in line with management expectations.

As a result of the global financial crisis, the Company experienced some delays to orders by Chinese banks during the year. However, the People's Bank of China's regulations requiring Chinese banks to replace and upgrade surveillance systems means that we are confident that these orders are still secure.

BlueStar has expanded its marketing focus and strategy to strengthen its position in this challenging time. These include the penetration into new sectors and the co-operation with government security agencies. Under the first of these co-operation agreements, which was announced in January 2009, BlueStar has developed a surveillance center with Kaiyuan Company to provide surveillance monitoring and mobile security guard services to banks and ATMs in Beijing. The newly established command centre in Beijing will be fully operational by July 2009. Under this agreement, BlueStar will receive a recurring monthly service fee for each outlet utilising the command centre's services. The Company believes this is a model that can be replicated in other areas of China in the future and will generate stable recurring monthly income going forward.

These developments and key contract wins since the year end mean the Board is both confident and optimistic about the Company's future development.

I would like to take this opportunity to express my sincere thanks to my board colleagues, executives and employees, for their hard work and valuable contributions in the past year. I hope that this combined effort will help propel the Company to greater success in the years to come.

Liu Xiaochuan
Chairman, Non-Executive Director

Financial Review

Revenue for the year ended 31 March 2009 was RMB 157 million (15 months ended 31 March 2008: RMB 175 million) and profit before tax was RMB 20 million (15 months ended 31 March 2008: RMB 52 million). At the end of the fiscal year, the Company's cash position remained strong at RMB 85 million (31 March 2008: RMB 115 million).

Gross profit for the year ended 31 March 2009 was RMB 77 million (15 months ended 31 March 2008: RMB 96 million) and average gross profit margins for the period were 49% (15 months ended 31 March 2008: 55%). This reduction is a result of the changes in the Company's DVR product mix and the decrease of software sales reflecting increased caution by customers towards purchasing. Nevertheless, the management believes that with continued product innovation, high gross margins can be sustained.

BlueStar increased its expenditure on Research and Development during the year to RMB 17 million (15 months ended 31 March 2008: RMB 16 million) and also invested RMB 5 million in production and office equipment (15 months ended 31 March 2008: RMB 8 million), which has lead to improved response times in supplying the Group's products and increased customer satisfaction. This in turn helped facilitate the expansion of the Company's sales and R&D functions.

Trade debtors and other receivables increased to RMB 125 million at 31 March 2009 (31 March 2008: RMB 89 million), which reflects tighter payment controls implemented by many businesses in China as a result of the global financial crisis. The management is working to improve its credit management and also diversify into non-banking markets and offer higher volume, lower specification product to help improve its receivables position.

Inventories also increased during the period to RMB 23 million (2008: RMB 20 million), which is a reflection of higher inventory level to meet the demand of increased network projects. This has lead to shorter delivery lead times and therefore improved customer satisfaction.

Net cash used in operating activities was RMB 8 million for the year (15 months ended 31 March 2008: RMB 4 million).

The Management expects that any impact on trading results from the global economic slowdown will be short-term in nature, and remains confident about the long-term health and prospects of the Group.

Operational Review

Research and Development

BlueStar continues to win customers through the proven TRENDLINE® series of products and comprehensive networking solutions, which are primarily supported by the Company's continued investment in R&D. As a result, the Company has continued investing in R&D during the year when its R&D expenditure amounted to RMB 17 million, for which RMB 7 million was capitalised, compared to RMB 16 million in the 15 month period ended 31 March 2008 of which RMB 4.5million was capitalised.

BlueStar launched the first ATM-specialised intelligent DVRs on 11 December 2008, which are regarded as an innovative breakthrough within the security industry. The DVRs combine intelligent analysis and video processing technologies to produce accurate and intelligent video surveillance with high efficiency. The new DVR product was designed specifically for the banking sector and includes functions specifically relevant to ensure the safety of ATM users including perimeter protection and face recognition.

The Group's network solutions used in surveillance command centres have been enhanced during the year through the optimisation of software and general software upgrades. New edition software for networking solutions is currently being tested and is expected to provide enhanced operability to the surveillance command centre.

During the year, BlueStar was awarded five copyrights in respect of its new software solutions for advanced networking platforms and intelligent management functions. These included application software version 1.0 for intelligent ATM-specialised digital video recorder; Single-channel video decoder software version 1.0; Multi-channel video decoder software version 1.0; Video image networking transmission software version 3.0; Application software version 1.0 for networking video management platform and incorporate areas including face recognition, special warning line and area safeguard, people counting, illegal left-object detection and lost article detection.

BlueStar has also carried out a considerable amount of research work on intelligent surveillance and high-definition output, which are currently being tested.

Two new DVR products targeting different market sectors are to be released by the Company by the end of 2009. The first is lower cost product intended to enable BlueStar to enter markets requiring lower technical capabilities and price points; the other is an advanced product providing higher definition and stable operation whilst requiring less storage space.

Production Facilities

BlueStar has a production and assembly capacity of 60,000 DVR units per year. This will ensure the Group has sufficient production capacity to meet demand as it grows over the coming two to three years. The implementation of a new SMT (Surface-Mount Technology) production line has also improved the quality of products and helped to reduce production costs.

Business Development

During the year the Group won several crucial contracts with state-owned banking giants and their branches throughout China. This includes contracts worth RMB 44 million with Bank of China's head office and its subsidiaries, new framework contracts with China Construction Bank, as well as new contracts in tier two regions, such as Gansu and Guizhou. This progress has reinforced BlueStar's dominant position in supplying surveillance systems to China's banking and finance sector. The Company was also named as the leading supplier of DVR products and systems in the finance and banking sectors in China following a review conducted by the 100 Significant Security Suppliers Appraising Organization.

BlueStar has six wholly-owned subsidiaries in Tier 1 cities across China, including Guangzhou, Shanghai, Shenyang, Xi'an, Chengdu and Tianjin; and 24 regional sales and service centers in Tier 2 and 3 cities, such as Changsha, Wuhan, Guiyang and Xiamen. As a result, BlueStar has now expanded its market reach to all provinces in China and has established a sales network of over 400 cooperation partners.

BlueStar recognises the importance of diversification and has accelerated this strategy as a result of the global financial turmoil during the second half of the financial year. The Company now has clients in many new sectors, such as petroleum, manufacturing, forestry, national defense, public security services and judicial departments, and will continue diversifying its client base going forward. Noteable results of this diversification programme during the second half of the financial year include a contract with Tangshan Iron & Steel Co., Ltd., a large state-owned enterprise listed on Shenzhen Stock Exchange in China which was the Company's first significant networking program in a new sector, as well as two contracts for DVR sales with Beijing Chuanye Shixing Tech, Co., Ltd., which carries out forest fire prevention programmes throughout China.

BlueStar has also won its first significant overseas contract in February 2009, to provide Zioncom Technology with digital video recorders for use in banking and transportation projects in Jaketa, the capital and largest city of Indonesia. BlueStar has actively participated in various international security industry events, including exhibitions and conferences across the world and is exploring further overseas opportunities in the future.

The Company's co-operation agreement with the Kaiyuan Agreement marks the expansion of its product driven business into providing surveillance services. BlueStar and Kaiyuan have established a new surveillance command centre in Beijing using BlueStar's existing technology in conjunction with Kaiyuan's mobile security staff. BlueStar's equipments will enable Kaiyuan to provide a range of round-the-clock operational services including remote video monitoring, intercom, alarm handling and the automatic inspection of cash ATM surveillance systems to new banking outlets. In returns, BlueStar will receive a monthly fee for each financial outlet subscribing to the service. The Company plans to replicate this model in other high-level cities across China including Shanghai, Guangzhou and Shenzhen.

Awards

During the year, BlueStar won a number of awards, commendations and accreditations. These include:

- March 2009: BlueStar named the leading supplier of DVR products and systems in the finance and banking sectors in China following a review conducted by the 100 Significant Security Suppliers Appraising Organisation.

- February 2009: BlueStar approved to be the 2009 Communication Commission Unit of National Technical Committee 100 on Security & Alarm Systems of Standardization Administration of China (SAC/TC100) and awarded with honorary certificate. SAC/TC100, the standard setter composing by numerous experts and scholars, has established and completed national technical standard system of security industry in China during the past 20 years.

- December 2008: BlueStar named in Deloitte's "Technology Fast 500 Asia Pacific Awards" for the second successive year. The survey features the fastest 500 growing technology companies in the Asia Pacific region which includes Australia, China, India, Japan, South Korea and Taiwan. The companies featured in the Technology Fast 500 list are those with the highest revenue growth over the previous three years.

- December 2008: BlueStar approved as the Deputy Director Unit of China Security and Protection Industry Association (CSPIA), which demonstrated our qualified products and services and more importantly, the dominant position in security industry in China.

- November 2008: BlueStar named in The Founder Magazine and H&J Consulting's Innovation Star 50 list for 2008, which was recognized as the best performing, fastest growth and most innovative among 350 Chinese companies that listed either at home or abroad amid the period of 1st Jan 07 ~ 31 Mar 08. BlueStar was the only AIM-listed company to be included.

Board Changes

The Board welcomes Mr. Derrick Woolf as its new Non-Executive Director. Derrick has been an accountant for over 40 years and is a director of other Chinese companies quoted on AIM.

Outlook

Despite the gloomy economic outlook, the current financial year has started well for BlueStar. The Group has won a number of new contracts since April 2009 which includes a contract worth RMB 42 million with the Bank of China's headquarter to provide comprehensive surveillance solutions to all its branches throughout China. These contract wins demonstrate the unparalleled position of BlueStar in the banking sector in Beijing as well as in other provinces across China.

With a strong cash balance and additional revenue stream to be generated from Kaiyuan as well as huge demand for security from the banking sector, the Board is confident about the Company's prospect and long term opportunity.

Directors' Report

The Directors are pleased to submit their report and the audited financial statements for the year ended 31 March 2009.

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements. The directors are required to prepare financial statements for the Group and Company in accordance with International Financial Reporting Standards ("IFRS").

International Accounting Standard 1 required that financial statements present fairly for each financial year the Group and Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements". In virtually all circumstances, a fair representation will be achieved by compliance with all IFRS. Directors are also required to:

- Select suitable accounting policies and then apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and Company's financial position and financial performance.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the opinion of the directors, the financial statements set out on pages 23 to 28 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 March 2009, and of the results, the changes in equity and cash flows of the Group and the Company for the financial year then ended and at the date of this statement, there are reasonable grounds to believe that the Group and the Company will be able to pay their debts as and when they fall due.

Principal Activity

The Company is incorporated in the British Virgin Islands on 9 June 2006. The registered Number is 1032245. The principal activity of the Company is to design, develop, manufacture, market, and supply our own video network solutions.

Review of Business

The enhanced business review for the Company is provided in the Chairman's Statement section of this annual report.

Results and Dividends

In line with the dividend policy set out in the Company's AIM admission document, the board is proposing a final dividend of 0.5p (2008: 0.96p) to be paid from the profits generated in the year. Subject to shareholder consent at the Annual General Meeting, this dividend will be paid on 31 July 2009 to shareholders on the register on 3 July 2009. The Company's ordinary shares will be marked "ex-dividend" on 1 July 2009.

Mr. Liu Xiaochuan
Non-Executive Chairman

Mr. Liu is the Chairman of China Security and Protection Industry Association, the Vice-Director and Superintendent of the Science and Technology Commission of Ministry of Public Security. Mr. Liu was the Vice-Chairman and Research Director of the First Institution of Ministry of Public Security. He was the Chairman of the Computer Communication Bureau of the Ministry of Public Security, Headmaster of the Chinese People's Public Security University. Mr. Liu has been awarded the National Science and Technology Conference Award, and the First, Second and Third Ministry of the Public Security Science and Technology Award.

Mr. Xiao Gang
Chief Executive Officer

Mr. Xiao holds a BA degree in Robotic Instruments and has over 15 years of experience in marketing, sales and manufacturing security and surveillance solutions. Mr. Xiao entered into the security systems industry in 1993, being a foremost distributor for Sanyo CCTV security products through the Guangzhou JingLun Technology Development Co. Ltd. and Guangzhou Mainline Technology Development Co. Ltd. of which he was the Founder and CEO. Between 1999 and 2000, Mr. Xiao was Deputy General Manager of Beijing Century Milestone, a video networking equipment group. In 2000 he founded Beijing BlueStar Software Technology Development Co. Ltd and its subsidiary companies in Guangzhou and Shanghai.

Mr. Romeo Edward Sze-Lam Kwok
Senior Vice President

Romeo Edward Sze-Lam Kwok was appointed as Senior Vice President and Executive Director of BlueStar on 15 February 2008. Mr. Romeo Kwok has over 30 years experience in the strategic marketing and sales of products & project integration, research & manufacturing within the security and surveillance industries both in Greater China and international markets. Prior to working for BlueStar, Mr. Romeo Kwok held senior management positions at a number of leading global security companies. He worked as Executive Director and Vice President of Asia operations at Bosch Security Ltd between 1995 and 2003. He was appointed as Senior Consultant by United Technologies Corp. USA (UTC) and Nixon Technologies Co. Ltd. between 2004 and 2008.

Mr. (Marine) Zheng Yunsheng
Chief Financial Officer

Mr. Zheng is a CPA qualified accountant and joined the Group in 2006. Prior to becoming the CFO he was a Senior Manager of BDO Reanda in Beijing. Prior to joining BDO Reanda, Mr. Zheng was employed as the Senior Consultant at LehmanBrown Financial Management Consultancy, managing the business evaluation and finalisation procedures for foreign corporates looking for opportunities in the PRC.

Ms. Wang Chong
Chief Operating Officer

Ms. Wang holds a B.S. Degree in Computer Application Science at the Beijing University of Industry. Ms. Wang has many years of corporate marketing and operating experience having previously worked for Legendmaker Software Development Co. Ltd, which she joined in 1997 as the company's Marketing Manager. In 1999 Ms. Wang joined the Beijing Office of Summedia Communication Technology, where she was responsible for marketing strategy, sales and marketing controls and management. Ms. Wang joined Bluestar in December 2000.

Mr. He Caiguang
Chief Technological Officer

Mr. He Caiguang holds a B.S. Degree in Geo Science at Zhejiang University. He has spent more than 16 years in research, development and implementation of software technology development. He has been with the Group since 2000. Prior to joining the Group, from 1999-2000, he was the software Department Manager of Beijing Century Milestone Technology Co. Ltd., heading up the application of software research and development. Prior to Century Milestone, during 1994-1999, he was employed at Guangdong Provincial Post Bureau as Project Manager and Systems Engineer.

Mr. Teo Kean Eek
Non-Executive Director

Mr. Teo has over 14 years of strategic planning and venture capital experience in the US, the PRC and Singapore. Prior to founding Agile, a financial advisory company in the PRC, he was the principal of Shanghai NewMargin Ventures in charge of investment, divestment and portfolio monitoring. Mr. Teo holds a Master's Degree in Engineering Economics System from Stanford University and a Bachelor's Degree in Electrical Engineering from Arizona State University. He is on the Board of Directors and a member of the audit committee of Pharmesis International Ltd (listed on the Singapore Stock Exchange) and Sinosoft Technology Plc (quoted on AIM).

Mr. Derrick Woolf
Non-Executive Director

Mr. Woolf, FCA FCCA, is an Accountant who has been in public practice for over 40 years and has extensive experience of dealing with growing companies. He qualified as a chartered accountant with Levy Gee in 1971 and was made a partner in 1974. He was senior partner when the accounting firm Levy Gee was sold to AIM listed Numerica Group plc and subsequently joining the board of Numerica Group plc as an executive director. In 2005, Numerica Group plc was acquired by Vantis plc and the two businesses merged their activities into Vantis Group Limited. Mr. Woolf also has experience of AIM quoted Chinese companies through his directorships with China Biodiesel International Holdings Co. Ltd and previously with Natsun Holdings Ltd. He advises Chinese Companies with their development and acquisition plans and helps overseas companies set up in China.

Directors' Interests

Name	Number of shares	%
Xiao Gang(1)	30,870,000	42.40%
He Caiguang(2)	2,940,000	4.04%
Wang Chong(3)	2,450,000	3.37%
Teo Kean Eek(4)	600,000	0.82%

(1) This represents the interests of Mr Xiao and his wife through their shareholdings respectively in SecuLine Technologies, Inc and Sunshine Holdings (Private) Limited
(2) Held through Video Sources Communication Limited
(3) Held through Balance Partners Limited
(4) Held through Agile Partners Limited

Substantial Shareholdings

As of 31 March 2009 the company has been notified of the following interests in its ordinary shares which represent 3% or more of the issued share capital of the company.

Name	Number of shares	%
SecuLine Technologies Inc.	17,150,000	23.56%
Sunshine Holdings (Private) Limited	13,720,000	18.84%
Mackenzie Cundill Investment Management	10,490,000	14.40%
CIM Investment Management	6,068,537	8.33%
Balance Partners Limited	5,390,000	7.40%
Video Sources Communication Limited	5,390,000	7.40%
NewTech Capital Management Limited	4,410,000	6.05%
KaiQi Holdings (Private) Limited	2,940,000	4.04%
Wessex Asia Pacific Fund	2,300,000	3.16%

No other person has reported an interest of more than 3% in the ordinary shares.

Financial Instruments

The Company's principal financial instruments comprise trade and other receivables, cash and bank balances, and trade and other payables. It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Company's instruments are liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarized as below. The Company also monitors the market price risk arising from all financial instruments.

The Company does not trade in any derivatives, has no hedging activities and has no financial assets or liabilities measured at fair value through profit and loss.

a. Credit risk

Receivable balances and cash and cash equivalents are monitored on an ongoing basis with the result that no major credit risk is currently considered to exist. The Company's exposure to credit risk arises from any default of the counterparty, with a maximum exposure equal to the sum of the carrying amount of these instruments. There are no significant concentrations of credit risk within the Company.

b. Foreign currency exchange risks

The Company does not hedge its foreign currencies. Transactions with customers and vendors are mainly denominated in RMB. Management considered that no significant foreign currency exposure will arise in the course of the business operation of the Company.

c. Liquidity risk

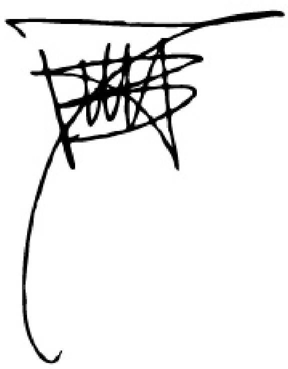
The Company regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations. The Company takes liquidity risk into consideration when deciding its sources of funds. At the period end there are no borrowings due after more than one year.

d. Interest rate risk

The Company doesn't have material interest rate risk.

Auditors

Resolutions to re-appoint Mazars LLP as the company's auditors will be put to the forthcoming annual general meeting.



Mr. Xiao Gang
CEO
22 June 2009

Remuneration Committee Report

Committee Members

The Remuneration Committee ("the Committee") comprises Mr. Liu Xiaochuan, Mr. Derrick Woolf and Mr. Teo Kean Eek chaired by Mr. Liu Xiaochuan. Mr. Derrick Woolf was appointed as the new Non-Executive Director on 14 July 2008, taking place of the former Non-Executive Director Mr.David Mace. The Committee reviews and makes recommendations in respect of the Directors' remuneration and benefits packages, including staff incentivisation and the terms of their appointment. The Committee also makes recommendations to the Directors' Board concerning the allocation of incentivisation payments to employees and the grant of options to directors and employees.

Remuneration Policy

The Committee aims to provide a remuneration policy consistent with the Company's overall business objectives and thereby attract and retain high calibre executives, align executives' rewards with the creation of shareholder value and motivate executives to achieve and maintain challenging levels of company and individual performance.

These packages are reviewed regularly and independent advice is taken when appropriate. They are structured to include both short and longer term incentives. None of the Committee has any personal financial interest (other than as shareholders), conflicts of interest or day-to-day involvement in running the business. No director plays a part in deciding their own remuneration.

There are four main elements of the remuneration package for executive directors:

- basic salary;
- pensions;
- other benefits; and
- share option incentives

Basic salary

It is the policy of the Committee to set basic salaries at levels which it believes are competitive given the size and complexity of the Company, as well as the broad business sectors in which it operates. The base salaries for Executive Directors and senior executives are reviewed annually and are determined by taking into account the responsibilities and performance of the individual, having regard to current market practice.

Pensions

Pensions for current China domiciled Executive Directors are, up to the Chinese Government salary cap, provided for under the Company's Chinese contributory final salary pension scheme.

Other benefits

The executive directors are provided with full medical benefits and accident insurances, and the Company shall reimburse all medical expenses incurred by the executive directors.

Directors and their interests

The Directors who served during the period, and their beneficial interests in the share capital of the company are shown in Page 14 of Directors' Report.

Service Contracts

Main information of service contract is as follows:.

	Contract Date	Contract Period	Termination Notice	Annual Salary/Fee
Executive				
Xiao Gang	30 Apr 2007	3 years	6 months notice by either side	RMB 960,000
Romeo Edward Sze-Lam Kwok	15 Feb 2008	3 years	6 months notice by either side	RMB 720,000
Zheng Yunsheng	30 Apr 2007	3 years	6 months notice by either side	RMB 360,000
Wang Chong	30 Apr 2007	3 years	6 months notice by either side	RMB 360,000
He Caiguang	30 Apr 2007	3 years	6 months notice by either side	RMB 360,000
Non-Executive				
Liu Xiaochuan	7 May 2007	3 years	3 months notice by either side	RMB 216,000
Teo Kean Eek	30 Apr 2007	3 years	3 months notice by either side	GBP 25,000
Derrick Woolf	14 Jul 2008	3 years	3 months notice by either side	GBP 30,000

The service contract of David Mace was terminated on 14 July 2008.

Directors Remuneration

Directors' remuneration for the 12 months period ended 31 March 2009 was as follows:

	Basic salary and fees	Pension Contributions	Other Benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive				
Xiao Gang	960	21	-	981
Romeo Edward Sze-Lam Kwok	720	36	-	756
Zheng Yunsheng	360	21	-	381
Wang Chong	360	21	-	381
He Caiguang	360	21	-	381
Non-Executive				
Liu Xiaochuan	198	-	-	198
Teo Kean Eek	219	-	-	219
Derrick Woolf	225	-	-	225
David Mace	197	-	-	197
	3,599	120	-	3,719

Mr. Liu Xiaochuan

Chairman of the Remuneration Committee

22 June 2009

Corporate Governance

The Directors take account of the requirements of the Corporate Governance Guidelines of the Quoted Companies Alliance to the extent that they consider it appropriate and having regard to the Company's size, stage of development and financial resources.

The Board

The Board is consisted of eight members, three of whom are non-executive Directors, including the non-executive Chairman. The non-executive Directors are Mr. Liu Xiaochuan, Mr. Derrick Woolf and Mr. Teo Kean Eek. The Board considers Mr. Liu Xiaochuan and Mr. Derrick Woolf to be independent in character and judgment and accordingly considers each of them to be independent for corporate governance purposes.

The Company holds regular board meetings. The Directors are responsible for formulating, reviewing and approving the Company's strategy, budget and major items of capital expenditure. The Audit Committee, Remuneration Committee and Nomination Committee comprise of only non-executive directors with formally delegated rules and responsibilities. The Audit Committee meets twice annually. The Remuneration Committee and Nomination Committee meet at least once a year.

Audit Committee

The Audit Committee currently comprises Mr. Liu Xiaochuan and Mr. Teo Kean Eek as committee member and chaired by Mr. Derrick Woolf. The Audit Committee inter alia, determines and examines matters relating to the financial affairs of the Company including the terms of engagement of the Company's auditors and, in consultation with the auditors, the scope of the audit. It receives and reviews reports from management and the Company's auditors relating to the half year and annual accounts and the accounting and internal control systems in use throughout the Company, in addition to ensuring that the Company complies with the AIM Rules for Companies.

Remuneration Committee

The Remuneration Committee currently comprises Mr. Derrick Woolf and Mr. Teo Kean Eek as committee member and chaired by Mr. Liu Xiaochuan. The Remuneration Committee reviews and makes recommendations in respect of the Directors' remuneration and benefits packages, including staff incentivisation and the terms of their appointment. The Remuneration Committee also makes recommendations to the Board concerning the allocation of incentivisation payments to employees and the grant of options to directors and employees.

Nomination Committee

The Nomination Committee currently comprises Mr. Liu Xiaochuan and Mr. Derrick Woolf as committee member and chaired by Mr. Teo Kean Eek. The Nomination Committee leads the process for Board appointments and makes recommendations of new Board appointments. The purpose of the Nomination Committee is to establish a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.

Internal Control

The Board is responsible for ensuring that the Company maintains a sound system of internal control to safeguard the Company's assets and take reasonable, but not absolute assurance to detect and prevent any material misstatement or loss. The five executive Directors hold key operational positions in the company and daily operational decisions. The Company's system of internal control includes, but is not limited to:

- The Board, which now includes five executive Directors and three non-executive Directors, has overall responsibility for the decision making in the Company;
- An annual budgeting process with regular re-forecasting of results, identifying key risks and opportunities;
- The Directors have put in place an organisational structure with clearly defined lines of responsibility and delegation of authority;
- The Company's management has a clear responsibility for identifying risks facing the business and for putting in place procedures to mitigate and monitor those risks; and
- There are clearly defined control policies and procedures for all transactions including appropriate authorization levels. els.

Relations With Shareholders

The executive Directors meet the Company's institutional investors after announcement of interim and final results and at other times as appropriate. Shareholders who attend the annual meeting ("AGM") are invited to ask questions. The directors attend the AGM and are available to answer questions relating to the Annual Report and Accounts at the AGM. The Company maintains a website and expects this to continue to be a growing medium for communication to individual shareholders.

Going Concern

On the basis of current financial projections and facilities available, the Directors have a reasonable expectation that the group has adequate resources to continue for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing its financial statements.

Mr. Liu Xiaochuan

Chairman, Non-Executive Director

22 June, 2009

Independent Auditors' Report

We have audited the financial statements of BlueStar SecuTech, Inc. for the year ended 31 March 2009 which comprises the consolidated and parent company income statements, the consolidated and parent company balance sheets, the consolidated and parent company cash flow statements, the consolidated and parent company statements of changes in equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, and whether the financial statements have been properly prepared in accordance with BVI Business Companies Act, 2004. In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the other information contained within the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the chairman's statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs, of the state of affairs of the Company and of the Group as at 31 March 2009, and of the Group's results for the year then ended; and

- the financial statements have been properly prepared in accordance with the BVI Business Companies Act, 2004.

Mazars LLP

MAZARS LLP
Chartered Accountants
Tower Bridge House
St Katharine's Way
London
E1W 1DD

22 June 2009

Note: The maintenance and integrity of BlueStar SecuTech Inc. Website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibilities for any changes that may have occurred to the financial statements since they were originally presented on the website. Legislations in the United Kingdom governing the presentation and dissemination of financial statements may differ from legislations in other jurisdictions.

Income Statements

	Note	Group		Company	
		12 months ended 31 March 2009	15months ended 31 March 2008	12 months ended 31 March 2009	15 months ended 31 March 2008
		RMB'000	RMB'000	RMB'000	RMB'000
Revenue	5	157,231	174,940	-	-
Cost of sales		(80,097)	(78,643)	-	-
Gross profit		**77,134**	**96,297**	-	-
Other income	6	5,908	5,824	-	-
Selling and distribution expenses		(32,095)	(24,157)	-	-
Administrative expenses		(30,129)	(22,246)	(4,723)	(3,859)
Other operating expenses		(1,294)	(5,769)	(703)	(2,558)
Profit/(loss) from operations	8	**19,524**	**49,949**	**(5,426)**	**(6,417)**
Finance cost	9	(52)	(4)	(9)	-
Finance income	10	1,424	2,255	226	954
Investment income	11	-	-	-	36,000
Profit/(loss) before tax		**20,896**	**52,200**	**(5,209)**	**30,537**
Taxation	12	(842)	(468)	-	-
Profit/(loss) for the year/period attributable to the equity shareholders of the parent		**20,054**	**51,732**	**(5,209)**	**30,537**
Earnings per ordinary share (fen)					
Basic	13	27.54	80.32		
Diluted	13	26.99	79.17		

All operations are continuing.

Statements of Changes of Equity

STATEMENT OF CHANGES IN EQUITY - GROUP

	Share capital	Merger reserve	Retained earnings	Other reserves	Option reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2007	391	15,000	29,124	15,990	-	60,505
Net profit for the period	-	-	51,732	-	143	51,875
Transfer to merger reserve	-	(22,575)	-	-	-	(22,575)
Issue of shares	164,909	-	-	-	-	164,909
Share issue costs	(30,439)	-	-	-	3,940	(26,499)
Transfer to statutory reserve	-	-	(7,760)	7,760	-	-
Balance as at 31 March 2008	134,861	(7,575)	73,096	23,750	4,083	228,215
Net profit for the year	-	-	20,054	-	-	20,054
Dividend distribution	-	-	(9,550)	-	-	(9,550)
Transfer to statutory reserve	-	-	(2,500)	2,500	-	-
Balance as at 31 March 2009	134,861	(7,575)	81,100	26,250	4,083	238,719

STATEMENT OF CHANGES IN EQUITY - COMPANY

	Share capital	Merger reserve	Retained earnings	Statutory reserves	Option reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Issue of shares	391	-	-	-	-	391
Net profit for the period	-	-	30,537	-	143	30,680
Issue of shares	164,909	-	-	-	-	164,909
Share issue costs	(30,439)	-	-	-	3,940	(26,499)
Balance as at 31 March 2008	134,861	-	30,537	-	4,083	169,481
Net loss for the year	-	-	(5,209)	-	-	(5,209)
Dividend distribution	-	-	(9,550)	-	-	(9,550)
Balance as at 31 March 2009	134,861	-	15,778	-	4,083	154,722

Balance Sheets

	Note	Group		Company	
		2009	2008	2009	2008
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Intangible assets	14	22,181	18,400	-	-
Property, plant and equipment	15	11,735	10,253	-	-
Investment in subsidiaries	16	-	-	128,021	128,021
Total non-current assets		33,916	28,653	128,021	128,021
Current assets					
Inventories	17	23,490	19,992	-	-
Trade and other receivables	18	125,437	88,967	28,293	32,423
Cash and cash equivalents	19	85,245	115,362	269	10,587
Total current assets		234,172	224,321	28,562	43,010
Total assets		268,088	252,974	156,583	171,031

Balance Sheets

	Note	Group		Company	
		2009	2008	2009	2008
		RMB'000	RMB'000	RMB'000	RMB'000
LIABILITIES & EQUITY					
Current liabilities					
Trade and other payables	20	14,688	11,095	1,861	1,550
Income tax liability		2,420	2,420	-	-
Other tax liability		10,951	10,776	-	-
Total current liabilities		28,059	24,291	1,861	1,550
Non-current liabilities					
Deferred tax	21	1,310	468	-	-
Total non-current liabilities		1,310	468	-	-
Total liabilities		29,369	24,759	1,861	1,550
Capital and reserves					
Share capital	22	134,861	134,861	134,861	134,861
Merger reserve	24	(7,575)	(7,575)	-	-
Retained earnings	24	81,100	73,096	15,778	30,537
Option reserve	24	4,083	4,083	4,083	4,083
Other reserves	24	26,250	23,750	-	-
Total shareholders' equity		238,719	228,215	154,722	169,481
Total liabilities & equity		268,088	252,974	156,583	171,031

The financial statements were approved by the board of directors and authorised for issue on 22 June 2009 and were signed on its behalf by:

Mr. Xiao Gang
Chief Executive Officer

Cash Flow Statements

	Group		Company	
	12 months ended 31 March 2009 RMB'000	15months ended 31 March 2008 RMB'000	12 months ended 31 March 2009 RMB'000	15 months ended 31 March 2008 RMB'000
Cash flows from operating activities				
Profit/(loss) before tax	20,896	52,200	(5,209)	30,537
Adjustments for:				
Interest expense	52	4	9	-
Interest income	(1,424)	(2,255)	(226)	(954)
Allowance for doubtful debts	2,076	-	-	-
Depreciation of property, plant and equipment	3,260	2,056	-	-
Amortisation of intangible assets	3,307	2,437	-	-
Loss on disposal of property, plant and equipment	568	123	-	-
Share based payment	-	143	-	143
Operating cash flows before movement in working capital	28,735	54,708	(5,426)	29.721
Increase in inventories	(3,498)	(11,290)	-	-
(Increase)/decrease in trade and other receivables	(38,546)	(36,102)	4,130	(32,423)
Increase/(decrease) in trade and other payables	3,765	(5,986)	311	1,550
Cash (used in)/generated by operations	(9,544)	1,330	(985)	(1,147)
Interest paid	(52)	(4)	(9)	-
Interest received	1,424	2,255	226	954
Net cash generated (used in)/from operating activities	(8,172)	3,581	(768)	(193)

Cash Flow Statements

	Group		Company	
	12 months ended 31 March 2009 RMB'000	15months ended 31 March 2008 RMB'000	12 months ended 31 March 2009 RMB'000	15 months ended 31 March 2008 RMB'000
Cash flow from investing activities				
Proceeds of disposal of property, plant and equipment	3	2	-	-
Purchase of property, plant and equipment	(5,310)	(8,201)	-	-
Purchase of intangible assets	(69)	(6,637)	-	-
Expenditure on product development	(7,019)	(4,456)	-	-
Cash outflow from restructuring	-	(22,575)	-	(128,021)
Net cash used in investing activities	(12,395)	(41,867)	-	(128,021)
Cash flow from financing activities				
Proceeds from issue of shares	-	164,909	-	165,300
Proceed from borrowings	-	15,357	-	23,173
Dividends paid	(9,550)	-	(9,550)	-
Repayment of borrowings	-	(23,173)	-	(23,173)
Share issue costs	-	(26,499)	-	(26,499)
Net cash (used in)/generated from financing activities	(9,550)	130,594	(9,550)	138,801
Net (decrease)/increase in cash and cash equivalents	(30,117)	92,308	(10,318)	10,587
Cash and cash equivalents at the beginning of the year/period	115,362	23,054	10,587	-
Cash and cash equivalents at the end of the year/period	85,245	115,362	269	10,587

Notes to the Financial Statements

1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

1.1. General information

The Company was incorporated in British Virgin Islands on 9 June 2006 with the name Trendline Security Solution Co., Ltd. The Company changed its name to BlueStar SecuTech, Inc. on 7 June 2007 and was admitted to the AIM Market ("AIM") on 18 June 2007.

The Company's registered office is Offshore Incorporations Centre P.O. Box 957 Road Town Tortola British Virgin Islands. The Company is domiciled in British Virgin Islands.

The principal activity of the Company is that of an investment holding company. The principal activities of its subsidiaries are set out in Note 16.

1.2. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC interpretations and those parts of the BVI Business Companies Act, 2004 applicable to companies reporting under IFRS.

The Company has adopted IFRS since the date of its registration. These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

1.3. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, made up to 31 March 2009.

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls the voting power or holds more than half of the issued share capital.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the net asset transferred.

1.4. Merger accounting

The Company was incorporated on 9 June 2006 and established a wholly foreign-owned enterprise, Beijing BlueSky Software Development Co. Ltd ("BlueSky"), on 22 August 2006. BlueSky purchased all the assets and liabilities of BlueStar Software Technology Development Co., Ltd and its subsidiaries in cash. The transaction has been accounted for as a common control transaction under UK standard FRS 6 (Acquisition and Mergers) as the directors believe that this is not a business combination in the scope of IFRS 3 (Business Combinations) and there is no international accounting standard dealing with business combinations outside the scope of IFRS 3.

Notes to the Financial Statements

1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

1.5. Management estimates

The presentation of financial information under IFRS requires management to make prudent estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial information preparation and the reported amounts of revenue and expenses during the reporting year. Estimates have been made principally in respect of the following areas:

a) Allowance for doubtful accounts

The Group makes allowance for doubtful accounts based on the assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amount of the receivables may not be recoverable. Management specifically analyses historical bad debts, customer concentrations, customer worthiness, current economical trends and changes in customer payment terms when making judgement to evaluate the adequacy of the allowance for doubtful accounts. Where expectation is different from the original estimate, such difference will impact the carrying value of receivables.

b) Impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which intangible assets has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of intangible assets at the balance sheet date was RMB 22 million. There were no impairment adjustments made during the year.

c) Impairment of inventory

Determining whether inventory is impaired requires an estimation of net realisable value, which represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Management specifically analyses the latest selling price of products, and the related costs when making judgement to evaluate the adequacy of the impairment of inventory. Where expectation is different from the original estimation, such difference will impact the carrying value of receivables.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. IFRSs issued but not yet effective

The Group has not adopted the following standards in the preparation of the financial statements as they are either not effective as at 31 March 2009 or not applicable to the Group's business.

		Effective for:
IFRS 2	Share-based Payment — Amendment relating to vesting conditions and cancellations Revised 2008	Annual periods beginning on or after 1 January 2009
IFRS 3	Business Combinations — Comprehensive revision on applying the acquisition method Revised 2008	Annual periods beginning on or after 1 July 2009
IFRS 8	Operating Segments Revised 2008	Annual periods beginning on or after 1 January 2009
IAS 1	Presentation of Financial Statements — Comprehensive revision including requiring a statement of comprehensive income 2007	Annual periods beginning on or after 1 January 2009
IAS 1	Presentation of Financial Statements — Amendments relating to disclosure of puttable instruments and obligations arising on liquidation 2008	Annual periods beginning on or after 1 January 2009
IAS 23	Borrowing Costs — Comprehensive revision to prohibit immediate expensing 2007	Borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009
IAS 27	Consolidated and SeparateFinancial Statements — Consequential amendments arising from amendments to IFRS 3 2008	Annual periods beginning on or after 1 July 2009
IAS 27	Investments in Associates — Consequential amendments arising from amendments to IFRS 3 2008	Annual periods beginning on or after 1 July 2009
IAS 31	Interests in Joint Ventures — Consequential amendments arising from amendments to IFRS 3 2008	Annual periods beginning on or after 1 July 2009
IAS 32	Financial Instruments: Presentation — Amendments relating to puttable instruments and obligations arising on liquidation 2008	Annual periods beginning on or after 1 January 2009

Notes to the Financial Statements

2.1. IFRSs issued but not yet effective (continued)

Interpretations		Effective for:
IFRIC 13	Customer Loyalty Programmes	Annual periods beginning on or after 1 July 2008

The group is still evaluating the impact that these standards will have on the Group's financial statements, if any, but expect that there will be no material impact to the income statement and balance sheet when implemented, although further disclosure may be required.

2.2. Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Chinese Renminbi, which is the Group's functional and presentational currency.

2.3. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

2.4. Government grants

The government of the PRC provides assistance to software companies by rebating amounts of sales taxes (value-added tax). All sales from software with copyrights authorised by relevant authorities are eligible for value-added tax refunds. The subsidy is recognised as income when the rights to collect the tax refund are established and classified as other income in the income statement.

2.5. Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

Notes to the Financial Statements

2.6 . Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current taxation

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the relevant balance sheet date.

Deferred taxation

Deferred tax is determined on the basis of tax effect accounting, using the liability method, and it is applied to all significant temporary differences arising between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, except that the potential tax savings relating to a tax loss carry forward is not recorded as an asset unless there is a reasonable expectation of realisation in the foreseeable future.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority

2.7 . Property, plant and equipment

Property, plant and equipment are recorded at historical cost, less accumulated depreciation and any impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying amount.

Property in the course of construction for production or administrative purposes is carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. The cost of plant and equipment comprises its purchase price and any attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure such as repairs and maintenance are normally charged to the income statement in the period the costs are incurred unless it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected from the use of the assets. This expenditure is capitalised. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost of the assets over their estimated useful lives, using the straight-line method, as follows:

	Annual Depreciation Rate
Vehicles	19%
Fixtures and equipment	19%
Renovation costs	20%

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each balance sheet date.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Notes to the Financial Statements

2.8. Subsidiaries

A subsidiary is defined as a company in which the investing company has a long-term equity interest of more than 50% or over whose financial and operating policy decisions the group controls.

Shares in subsidiaries are stated at cost less allowance for any impairment losses on an individual subsidiary basis. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values on the date of acquisition, irrespective of the extent of minority interest.

2.9. Intangible assets

Software Licence

Software licence is stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the licence over 5 years.

Copyrights

Copyrights are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the asset over 10 years.

Internally generated intangible assets - Research and development expenditure

Research expenditure is recognised as an expense as incurred.
Costs incurred on development projects are recognised as internally generated intangible assets only if all of the following conditions are met by the Group:

- the technical feasibility of completing the intangible assets so that it will be available for use or sales;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible assets;
- it is probable that the intangible asset created will generate future economic benefits;
- the availability of adequate technical financial and other resources to complete the development and use or sell the intangible assets; and
- its ability to measure reliably the expenditure attributable to the intangible assets during its development.

Internally generated intangible assets are amortised on a straight-line basis over their estimated useful lives, from the date the intangible is ready for use. Amortisation charge is recognised in the income statement within "Administrative Expenses".

Development costs that have been capitalised as intangible assets are amortised on a straight-line basis over the period of its expected benefits, which normally does not exceed 10 years.

Notes to the Financial Statements

2.10 . Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

2.11 . Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

2.12 . Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and cash held on demand with banks, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

2.13 . Financial assets

The principal financial assets are cash, trade receivables, other receivables and other investments. Trade and other receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. The accounting policy of other investments is outlined above.

Regular way purchases and sales of financial assets are accounted for at trade date, ie, the date that the Group commits itself to purchase or sell the asset.

Notes to the Financial Statements

2.14 . Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include interest-bearing short-term bank loans, trade payables and other payables.

Interest-bearing short-term bank loans are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Finance costs are accounted for on an accruals basis (effective yield method) and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables are stated at their nominal value.

Equity instruments are recorded at the fair value of consideration received, net of direct issue costs.

2.15 . Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is taken to the income statement over the period of the borrowings using the effective interest method.

2.16 . Foreign currency transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currencies are recorded at rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary balances denominated in foreign currencies are retranslated at the rates ruling at the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the year.

2.17 . Provisions

Provisions are recognised when the combined entity has a present legal or constructive obligation as a result of a past event where it is probable that the obligation will result in an outflow of economic benefits that can be reasonably estimated.

2.18 . Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

2.19 . Dividends

Dividends on ordinary shares are recognised as a liability in the period in which they are declared.

Notes to the Financial Statements

2.20 . Related parties

For purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

2.21 . Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Business Segment

The Group comprises mainly the sales of digital video devices, software and technological services.

Geographical Segment

No geographical segment analysis of the Group is presented as the Group's business operates mainly in the PRC.

Notes to the Financial Statements

3 FINANCIAL RISKS AND MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the Group's Board of Directors. The Board identifies and evaluates financial risks in close co-ordination with the Group's operating units. The Board provides principles for overall risk management, as well as policies covering specific areas such as credit risk, interest rate risk, foreign currency risk and liquidity risk.

(i) *Credit risk*

The Group has no significant concentration of credit risk. The Group has policies in place to ensure that sales are made to customers with an appropriate credit history.

(ii) *Interest rate risk*

The Group obtains additional financing through borrowings. The Group's policy is to obtain the most favourable interest rates available. The terms and interest rates payable are disclosed in relevant notes to the Group financial information.

Surplus funds are placed with reputable banks.

(iii) *Foreign currency risk*

The Group's sales and purchases are mainly denominated in Chinese Renminbi (RMB). The residual risk after the natural hedging effects of any foreign currencies' denominated assets and liabilities are not expected to have a significant impact on the Group's financial position and future cash flows.

(iv) *Liquidity risk*

The Group has sufficient cash and cash equivalents to meet its operational requirements.

(v) *Fair values of financial assets and financial liabilities*

The carrying amounts of financial assets and financial liabilities reported in the balance sheet approximate their fair values.

Notes to the Financial Statements

4 CAPITAL MANAGEMENT RISK

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued share capital and reserves.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio and also debts to equity ratio.

The gearing ratio is defined and calculated by the group as the total of interest-bearing borrowings to the owner's equity. Total equity includes mainly equity attributable to equity holders of the company.

Given the strong cash and cash equivalents, the Group's gearing ratio is zero as at 31 March 2009 and 31 March 2008.

The Debt to Equity ratio is defined and calculated by the Group as total debt (total liabilities) to the owner's equity. At 31 March 2009 this was 12.3% compared to 10.8% at 31 December 2008.

	Group	
	31 March 2009	31 March 2008
	RMB'000	RMB'000
Total debt	29,369	24,759
Total shareholders' equity	238,719	228,215
Debt to Equity ratio	12.3%	10.8%

5 REVENUE AND SEGMENTAL ANALYSIS

The Group's revenue for continuing operations, is as follows:

	Group	
	12 months ended 31 March 2009	15 months ended 31 March 2008
	RMB'000	RMB'000
Sales of digital video devices	142,481	152,818
Sales of software	14,436	21,752
Revenue from technological service	314	370
	157,231	174,940

The Group's revenue and profit before taxation were all derived from its principal activity. All revenue and results originates in the PRC and assets and liabilities are mainly held in the PRC.

Notes to the Financial Statements

6 OTHER INCOME

	Group	
	12 months ended 31 March 2009	15 months ended 31 March 2008
	RMB'000	RMB'000
Government subsidy income	-	2,000
Value added tax refund	5,697	3,733
Others	211	91
	5,908	5,824

7 STAFF COSTS

	Group		Company	
	12 months ended 31 March 2009	15months ended 31 March 2008	12 months ended 31 March 2009	15 months ended 31 March 2008
	RMB'000	RMB'000	RMB'000	RMB'000
Wages and salaries (including directors)	27,982	19,262	2,292	2,009
Pension expense	4,325	2,575	-	-
Share based payments (Note 23)	-	143	-	143
	32,307	21,980	2,292	2,152

Included in staff costs are key management personnel compensation analysed as follows:

	Group		Company	
	12 months ended 31 March 2009	15 months ended 31 March 2008	12 months ended 31 March 2009	15 months ended 31 March 2008
	RMB'000	RMB'000	RMB'000	RMB'000
Salaries	3,636	3,547	2,292	2,009
Pension expense	100	100	-	-
Share based payment (Note 23)	-	143	-	143
	3,736	3,790	2,292	2,152

Notes to the Financial Statements

8 PROFIT/(LOSS) FROM OPERATIONS

The profit/(loss) from operations is stated after charging the following:

	Group		Company	
	12 months ended 31 March 2009	15 months ended 31 March 2008	12 months ended 31 March 2009	15months ended 31 March 2008
	RMB'000	RMB'000	RMB'000	RMB'000
Allowance for doubtful debts (trade)	2,076	-	-	
Allowance for impairment of inventories	2,119	146	-	-
Cost of sales (excluding labour cost included within cost of sales)	76,591	77,093	-	-
Research & development costs	10,157	11,425	-	-
Depreciation of property, plant and equipment	3,260	2,056	-	-
Amortisation of intangible assets (included within administrative expenses)	3,307	2,437	-	-
Loss on disposal of property, plant and equipment	568	123	-	-
Auditors' remuneration	600	600	600	600
Loss on foreign exchange	754	4,046	703	2,558

9 FINANCE COST

	Group		Company	
	12 months ended 31 March 2009	15 months ended 31 March 2008	12 months ended 31 March 2009	15 months ended 31 March 2008
	RMB'000	RMB'000	RMB'000	RMB'000
Bank charge	52	4	9	-
	52	4	9	-

10 FINANCE INCOME

	Group		Company	
	12 months ended 31 March 2009	15 months ended 31 March 2008	12 months ended 31 March 2009	15 months ended 31 March 2008
	RMB'000	RMB'000	RMB'000	RMB'000
Interest income	1,424	2,255	226	954
	1,424	2,255	226	954

Notes to the Financial Statements

11 INVESTMENT INCOME

	Group		Company	
	12 months ended 31 March 2009	15 months ended 31 March 2008	12 months ended 31 March 2009	15 months ended 31 March 2008
	RMB'000	RMB'000	RMB'000	RMB'000
Investment income	-	-	-	36,000
	-	-	-	36,000

12 TAXATION

	Group	
	12 months ended 31 March 2009 RMB'000	15 months ended 31 March 2008 RMB'000
Current year:		
Current tax	-	-
Deferred tax expense (Note 21)	842	468
	842	468

Reconciliation of tax charge:

	Group	
	12 months ended 31 March 2009 RMB'000	15 months ended 31 March 2008 RMB'000
Profit before tax	20,896	52,200
Tax at PRC tax rate of 25% (2008: 33%)	5,224	17,226
Effect of different tax rates of subsidiaries	-	-
Expenses not deductible in determining taxable profit	3,570	8,265
Effect of capitalisation of development costs	842	468
Tax effect of income not taxable	(8,794)	(25,491)
Tax expense for the year/period	842	468

According to the new Chinese Corporate Income Tax Law becoming effective from 1 January 2008, the corporate income tax rate reduced from 33% to 25% for tax payers in China.

There is no corporate tax charge in the parent company because the Company was incorporated in a tax-free location, British Virgin Islands.

Notes to the Financial Statements

13 EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 31 March 2009 is based on the profit attributable to equity shareholders of the Company of RMB 20,054k (2008: RMB 51,732k) and a weighted average number of ordinary shares outstanding during the year ended 31 March 2009 of 72,808,000 (2008: 64,405,053), calculated as follows:

Weighted average number of ordinary shares

	31 March 2009	31 March 2008
At beginning of the period	72,808,000	50,000,000
Effect of shares issued in June 2007	-	14,405,053
At end of year/period	72,808,000	64,405,053

Diluted earnings per share

The calculation of diluted earnings per share at 31 March 2009 is based on profit attributable to equity shareholders of the Company of RMB 20,054k (2008: RMB 51,732k) and a weighted average number of ordinary shares outstanding during the year ended 31 March 2009 of 74,300,564 (2008: 65,347,725), calculated as follows:

Weighted average number of ordinary shares (diluted)

	31 March 2009	31 March 2008
Weighted average number of ordinary shares at beginning of year/period	72,808,000	64,405,053
Effect of conversion of share options	1,492,564	942,672
At end of year/period	74,300,564	65,347,725

Notes to the Financial Statements

14 INTANGIBLE ASSETS - GROUP

	Copyrights RMB'000	Development cost RMB'000	Purchased software RMB'000	Total RMB'000
Cost				
At 1 January 2007	2,903	3,834	4,099	10,836
Additions	4,456	-	6,637	11,093
Transfer	2,171	(2,171)	-	-
At 31 March 2008	9,530	1,663	10,736	21,929
Additions	7,019	-	69	7,088
Transfer	1,663	(1,663)	-	-
At 31 March 2009	18,212	-	10,805	29,017
Accumulated amortisation and impairment				
At 1 January 2007	733	-	359	1,092
Charge for the period	363	479	1,595	2,437
Transfer	271	(271)	-	-
At 31 March 2008	1,367	208	1,954	3,529
Charge for the year	1,193	-	2,114	3,307
Transfer	319	(208)	(111)	-
At 31 March 2009	2,879	-	3,957	6,836
Carrying amount				
At 31 March 2009	15,333	-	6,848	22,181
At 31 March 2008	8,163	1,455	8,782	18,400

The remaining amortisation period of intangible assets is approximately 67 months.

Notes to the Financial Statements

15 PROPERTY, PLANT AND EQUIPMENT - GROUP

	Vehicle RMB'000	Fixture and equipment RMB'000	Renovation RMB'000	Construction in process RMB'000	Total RMB'000
Cost					
At 1 January 2007	4,287	3,370	1,329	-	8,986
Additions	579	6,478	1,144	-	8,201
Disposals	(279)	(562)	(211)	-	(1,052)
At 31 March 2008	4,587	9,286	2,262	-	16,135
Additions	787	2,052	1,980	491	5,310
Disposals	-	(223)	(643)	-	(866)
At 31 March 2009	5,374	11,115	3,599	491	20,579
Accumulated depreciation and impairment					
At 1 January 2007	2,775	1,521	457	-	4,753
Depreciation charge for the period	617	1,005	434	-	2,056
Disposals	(262)	(536)	(129)	-	(927)
At 31 March 2008	3,130	1,990	762	-	5,882
Depreciation charge for the year	631	1,904	725	-	3,260
Disposals	-	(124)	(174)	-	(298)
At 31 March 2009	3,761	3,770	1,313	-	8,844
Carrying amount					
At 31 March 2009	1,613	7,345	2,286	491	11,735
At 31 March 2008	1,457	7,296	1,500	-	10,253

Notes to the Financial Statements

16 INVESTMENT IN SUBSIDIARIES - COMPANY

	2009 RMB'000	2008 RMB'000
Unquoted equity, at cost	128,021	128,021

Investment in subsidiaries consists of:

Name of subsidiary	Principal activities	Place of Incorporation	Equity interest
Beijing BlueSky Software Development Co. Ltd ("BlueSky")	Investment holding, production and sales of digital video ecnallievrus solutions	PRC	100%
Held by BlueSky: Beijing Bluestar River Software Technology Development Co. Ltd	Research and development	PRC	100%
Guangzhou Bluestar Science and Technology Co. Ltd ("GZ Bluestar")	Sales centre	PRC	100%
Shanghai Bluestar Science and Technology Co. Ltd ("SH Bluestar")	Sales centre	PRC	100%
Shenyang Bluestar Science and Technology Co. Ltd	Sales centre	PRC	100%
Tianjin Bluestar Science and Technology Co. Ltd	Sales centre	PRC	100%
Xi'an Bluestar Science and Technology Co. Ltd	Sales centre	PRC	100%
Chengdu Bluestar Science and Technology Co. Ltd	Sales centre	PRC	100%

Notes to the Financial Statements

17 INVENTORIES

	Group 2009 RMB'000	Group 2008 RMB'000
Raw materials	7,003	5,582
Work-in-progress	785	1,996
Finished goods	18,565	13,158
Gross amount before provision for impairment	26,353	20,736
Provision for impairment	(2,863)	(744)
Net amount	23,490	19,992

Movement of provision for impairment is as follows:

	Group 2009 RMB'000	Group 2008 RMB'000
Balance at beginning of year/period	744	598
Provision made during the year/period	2,119	146
Balance at end of year/period	2,863	744

18 TRADE AND OTHER RECEIVABLES

	Group 2009 RMB'000	Group 2008 RMB'000	Company 2009 RMB'000	Company 2008 RMB'000
Trade receivables	42,828	15,165	-	-
Accrued income	74,424	61,875	-	-
Less: Provision for doubtful debts				
Balance at beginning of year/period	(1,727)	(1,727)	-	-
Provision made during the year/period	(2,076)	-	-	-
Balance at end of year/period	(3,803)	(1,727)	-	-
	113,449	75,313	-	-
Other receivables	4,260	4,878	-	11
Prepayments	7,728	8,776	-	-
Amount due from subsidiary undertakings	-	-	28,293	32,412
	125,437	88,967	28,293	32,423

The amount due from related party and subsidiary undertakings are non-trade, unsecured, and have no fixed term of repayments.

Notes to the Financial Statements

19 CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Petty cash	361	506	-	-
Bank balances	84,884	114,856	269	10,587
	85,245	115,362	269	10,587

20 TRADE AND OTHER PAYABLES

	Group		Company	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	10,272	9,260	-	-
Accrued payroll	2,276	582	-	473
Other payables	167	387	-	196
Amount due to directors	1,261	-	1,261	15
Accruals	712	866	600	866
	14,688	11,095	1,861	1,550

Amounts due to directors are accrued salary, are unsecured, and have no fixed terms of repayment.

21 DEFERRED TAXATION - GROUP

Movements in deferred taxation during the year/period are as follows:

	Arising on Intangible Assets RMB'000	Total RMB'000
At 1 January 2007	-	-
Charge to income statement	468	468
At 31 March 2008	468	468
Charge to income statement	842	842
At 31 March 2009	1,310	1,310

The following is an analysis of deferred tax balances for financial reporting purposes:

	Group	
	2009	2008
	RMB'000	RMB'000
Deferred tax liability	1,310	468

Notes to the Financial Statements

22 SHARE CAPITAL

The total authorised number of ordinary shares is 72,808,000 shares (2008: 72,808,000 shares) with a nil par value per share (2008: nil par value per share). All issued shares are fully paid.

Issued and paid up:	2009 No. of ordinary shares	2009 RMB'000	2008 No. of ordinary shares	2008 RMB'000
At beginning of year/period	72,808,000	134,861	50,000	391
Subdivided each shares into 1,000 ordinary shares	-	-	49,950,000	-
Allotted on placing on AIM	-	-	22,808,000	164,909
Share issue costs	-	-	-	(26,499)
Share options granted	-	-	-	(3,940)
At end of year/period	72,808,000	134,861	72,808,000	134,861

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

At 31 March 2009, the Company had the following outstanding share options:

Number	Exercise price (£)	Date of grant	Exercise period
1,456,160	0.48	18.06.2007	18.06.2007 – 17.06.2012
36,404	0.48	18.06.2007	18.06.2008 – 17.06.2017

Notes to the Financial Statements

23 SHARE BASED PAYMENTS

At 31 March 2009, the Company had granted and conditionally awarded 1,492,564 unissued ordinary shares with an exercise price of £0.48 under the equity compensation plan to eligible executives and entities involved in the admission to AIM.

Under the first option agreement dated 13 June 2007, 36,404 share options were granted. The options are to vest in four equal instalments on the first, second, third and fourth anniversaries of admission to AIM and are to be exercisable at the Placing Price for a period of ten days from Admission. As at 31 March 2009, none of the options had been exercised.

Under the second option agreement dated 13 June 2007, 1,456,160 share options were granted. The option is exercisable at the Placing Price at any time following Admission and lapses on the fifth anniversary thereof.

The weighted average estimated fair value of each share option granted in the share option agreement is 18 pence. This estimated fair value was calculated by applying a Black-Scholes model. The model inputs were:
- share price at grant date of 48 pence
- exercise price of 48 pence
- expected volatility of 30%
- no expected dividends
- contractual life of 5-10 years, and
- a risk-free interest rate of 5.75%

The expected volatility is based on the historical volatility of companies in a similar market and industry.

	2009		2008	
Issued and paid up:	Average exercise price in £ per shares	Options	Average exercise price in £ per shares	Options
At beginning of year/period	0.48	1,492,564	-	-
Granted	-	-	0.48	1,492,564
Forfeited	-	-	-	-
Executed	-	-	-	-
Expired	-	-	-	-
At end of year/period	0.48	1,492,564	0.48	1,492,564

Notes to the Financial Statements

24 RESERVES

	Group		Company	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Statutory reserves	20,092	17,592	-	-
Capital surplus	6,158	6,158	-	-
Option reserves	4,083	4,083	4,083	4,083
Retained earnings	81,100	73,096	15,778	30,537
Merger reserve	(7,575)	(7,575)	-	-
	103,858	93,354	19,861	34,620

(a) Statutory reserve

Statutory reserve-enterprises established in the PRC.
Subsidiaries of the Group in the PRC, which are wholly-owned foreign enterprises, follow the accounting principles and relevant financial regulations of PRC applicable to wholly-owned foreign enterprises ("PRC GAAP-WOFE"), in the preparation of its accounting records and financial statements. The subsidiaries are required to appropriate no less than 10% of the profit arrived at in accordance with PRC GAAP-WOFE for each year to a statutory reserve. Profit must be used initially to set off against any accumulated losses, must be made before the distribution of dividends to shareholders. The appropriation is required until the statutory reserve reaches 50% of the registered capital. This statutory reserve is not distributable in the form of cash dividends, but may be used to set off losses or be converted into paid-in capital. The Group opts to appropriate 10% of the net profit.

(b) Capital surplus

The Capital Surplus represents the amount by which the capital contributed by the original shareholders of the Group before restructuring exceeded the authorised share capital. In 2000 and 2001, Mr. Xiao Gang contributed physical assets (including equipment and inventory) into GZ BlueStar and SH BlueStar, amounting to RMB 6,158,000. Since this amount represented the excess over the authorised share capital, Mr. Xiao Gang acknowledged that the investment over-contributed by him belonged to all the shareholders of the Group, and therefore, the amount has been treated as a Capital Surplus.

(c) Option reserve

This comprises the cumulative value of services rendered by personnel assisting in the process of admission to AIM in June 2007 for the issue of share options and share option scheme granted to existing staff.

(d) Merger reserve

The merger reserve represents the difference between the share capital and premium of the subsidiaries acquired as a result of restructuring exercises and the consideration paid thereof.

Notes to the Financial Statements

25 OPERATING LEASE ARRANGEMENTS

	Group	
	2009	2008
	RMB'000	RMB'000
Minimum lease payments under operating leases included in the income statement	4,723	3,629

At the balance sheet date, the commitments in respect of non-cancellable operating leases for office buildings with a term of more than one year were as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Future minimum lease payments payable:		
Within one year	6,710	2,244
In two to five years	9,115	156
	15,825	2,400

26 RELATED PARTY TRANSACTIONS

Transactions within the Group have been eliminated in the preparation of the financial information set out in this report and are not disclosed in this note. Balances with other related parties have been disclosed under the relevant notes.

27 COMPARATIVE FIGURES

The financial year end was changed from 31 December to 31 March in the previous financial year. Accordingly, the comparatives covered a period of 15 months from 1 January 2007 to 31 March 2008. As a result, comparative figures are not directly comparable to the current figures.

28 SUBSEQUENT EVENT

On 22 June 2009, the directors proposed a dividend of 0.5 pence per ordinary share in respect of the financial year ended 31 March 2009.

Notes to the Financial Statements

29 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instruments

The Group's principal financial instruments comprise trade and other receivables, cash and bank balances, and trade and other payables. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's instruments are liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. The Group also monitors the market price risk arising from all financial instruments.

The Group does not trade in any derivatives, has no hedging activities and has no financial assets or liabilities measured at fair value through profit and loss.

The following table details the carrying amounts and fair values of financial assets and financial liabilities:

	Carrying amount Group		Fair value Group		Carrying amount Company		Fair value Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Financial assets								
Cash and cash equivalents	85,245	115,362	85,245	115,362	269	10,587	269	10,587
Trade and other receivables	125,437	88,967	125,437	88,967	28,293	32,423	28,293	32,423
	210,682	204,329	210,682	204,329	28,562	43,010	28,562	43,010
Financial liabilities								
Trade and other payables	14,688	11,095	14,688	11,095	1,861	1,550	1,861	1,550

Credit risk

Receivable balances and cash and cash equivalents are monitored on an ongoing basis with the result that no major credit risk is currently considered to exist. The Group's exposure to credit risk arises from any default of the counterparty, with a maximum exposure equal to the sum of the carrying amount of these instruments. There are no significant concentrations of credit risk within the Group.

The Group does not have written credit risk management policies or guidelines. However, the management generally adopts conservative strategies and tight control on credit policy. The Group has limited the amount of credit exposure to customers.

All financial assets are subject to credit risk at the year end.

All of the Group's financial assets are classified as loans and receivables and all of the Group's financial liabilities are measured at amortised cost.

Notes to the Financial Statements

The Group continuously monitors defaults of customers and counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. The Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

None of the Group's financial assets are secured by collateral or other credit enhancements.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets subject to credit risk at the reporting date was:

	Carrying amount			
	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Trade receivables	39,025	13,438	-	-
Accrued income	74,424	61,875	-	-
Other receivables	4,260	4,878	-	11
Prepayments	7,154	8,551	-	-
Prepaid expense	574	225	-	-
Amount due from subsidiary	-	-	28,293	32,412
Cash and cash equivalents	85,245	115,362	269	10,587
	210,682	204,329	28,562	43,010

Impairment losses

Based on past experience, the management believes that an impairment allowance as stated in note 18 is necessary in respect of the balance of trade receivables.

The aging of trade receivables at the reporting date was:

	Group			
	Gross 2009 RMB'000	Impairment 2009 RMB'000	Gross 2008 RMB'000	Impairment 2008 RMB'000
Not past due	10,632	-	2,401	-
Past due 0 to 3 months	14,835	-	9,466	-
Past due 4 to 6 months	12,169	-	333	-
Past due 7 to 9 months	622	-	669	-
Past due 10 to 12 months	2,650	1,883	748	179
More than 12 months	1,920	1,920	1,548	1,548
	42,828	3,803	15,165	1,727

Notes to the Financial Statements

Foreign currency exchange risks

The Group does not hedge its foreign currencies. Transactions with customers and vendors are mainly denominated in RMB. Management considered that no significant foreign currency exposure will arise in the course of the business operation of the Group.

Sensitivity Analysis

A 10% strengthening of RMB against the following currencies at the reporting date would increase/(decrease) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Group		Company	
	Equity RMB'000	Effect in Profit or loss RMB'000	Equity RMB'000	Effect in Profit or loss RMB'000
31 March 2009				
USD	(6)	(6)	(6)	(6)
GBP	(21)	(21)	(21)	(21)
31 March 2008				
USD	(32)	(32)	(32)	(32)
GBP	(1,027)	(1,027)	(1,027)	(1,027)

A 10% weakening of RMB against the above currencies would have had the equal but opposite effect on the above currencies to the amount shown above, on the basis that all other variables remain constant

Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk and currency risk.

Liquidity risk

The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations. The Group takes liquidity risk into consideration when deciding its sources of funds. At the year end there are no borrowings due after more than one year.

Interest rate risk

The Group does not have material interest rate risk.

Finance income and finance costs

All interest income and interest expense originate from financial assets classified as loans and receivables.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the second Annual General Meeting of BlueStar SecuTech, Inc. (the "Company") will be held at the conference room, 14th floor, tower A, Chengjian Plaza, No.18 Beitaipingzhuang Road, Haidian District, Beijing (100088), PRC, at 4 pm (Beijing time)/9 am (London time) on Monday 27 July 2009, for the following purposes:

1. To receive the audited financial statements of the Company for the 12 months ended 31 March 2009, together with the reports of the directors and auditors thereon.

2. To approve the remuneration committee report of the Company for the 12 months ended 31 March 2009.

3. To re-appoint Mazars LLP as the Company's auditors.

4. To authorize the Directors to fix the remuneration of the auditors.

5. To re-elect Mr. Romeo Edward Sze-Lam Kwok, who retires by rotation, as executive director of the Company.

6. To re-elect Mr. He Caiguang, who retires by rotation, as executive director of the Company.

7.To re-elect Mr. Liu Xiaochuan, who retires by rotation, as non-executive director of the Company.

8. To approve the dividend of 0.5p per share.

By order of the Board

Xu Min
Company Secretary
29 June 2009

Notes

(1) A form of proxy is enclosed for use by shareholders and a form of direction is enclosed for use by Depository Interest holders. The form of proxy must be deposited with the Company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time of the Annual General Meeting ("AGM") and the form of direction must be deposited with the Company's registrars not less than 72 hours before the time of AGM. Appointment of a proxy does not preclude a shareholder from attending the AGM and voting in person.

(2) In respect of ordinary shareholders, a member entitled to attend and vote at the AGM may appoint one or more proxies (who need not be a member of the Company) to attend and to speak and to vote on his or her behalf whether by show of hands or on a poll. A member can appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him.

(3) To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

BlueStar SecuTech, Inc.

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